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Manufacturer—Distributor Relations: Pulling Together Instead of Apart



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William H. Frohlich

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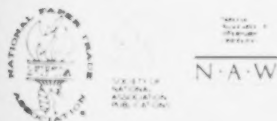
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Relations: it's a tug
of war, but both
have to be on the
same side.*



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Cover photo: Richard Chesnut

Paper Production to Grow Over Next Three Years

The American Paper Institute's annual survey shows a firm commitment to plans for new paper and paperboard capacity.

"Capacity plans, including new mills and other improvements, for manufacturing primary paper and paperboard in the U.S. should add 8,249,000 tons to the industry manufacturing base in the three-year period 1989-1991," said Red Cavaney, president, American Paper Institute (API) at a news conference held on December 21st to report the results of API's 31st annual capacity survey.

"This growth in capacity, financed by record capital outlays," Mr. Cavaney continued, "will permit the industry to increase output of primary paper and paperboard at a 3.3% average annual rate and to reach a potential for 88,564,000 tons of production annually in 1991."

Continuing long-term economic growth and the ensuing demand for paper and paperboard products, coupled with competitiveness in global markets, are reflected in plans for new capacity.

During the same three-year period, wood pulp capacity is reported to advance at an annual growth rate of 2.6%. Planned improvements at new wood pulp mills will add 5,078,000 tons of capacity by 1991, bringing the industry capacity to 67,754,000 annual tons.

Increased use of recyclable paper is also reported in the survey. Consumption, which totaled 19,770,000 tons in 1988, is estimated at 23,025,000 tons in 1991, if the industry operates at capacity in that year. Consumption of recyclable paper, as a component of total fibers, will increase its share from 24.4% in 1987 to 25.6% in 1991. This 5% share gain continues the increasing use of recyclable paper as furnish for papermaking.

Capacity projects included in the survey are firm commitments. Such projects will usually be approved by senior management or boards of directors, have assured financing and, in many instances, will include site acquisition and signed contracts for equipment.

Anticipated growth rates in industry capacity mark the second consecutive year in which producers have increased their year-earlier expansion plans. In the 1987 API survey, 1990 capacity was expected to reach 84.1 million annual tons for paper and paperboard and 64.4 million annual tons for wood pulp. Both of these estimates should now be exceeded in 1990 and sustained growth is expected to continue through 1991.

The ratio of wood pulp capacity to paper and paperboard capacity, which was measured at 79% in 1986, is now estimated to be 77% in 1991. As reported last year, this development indicates plans to increase the utilization of recyclable paper, not an industry fiber deficit.

Other highlights of API's survey include:

- Capacity for printing and writing papers, mostly uncoated free sheet, coated groundwood and coated free sheet papers, is expected to grow at a 3.9% average annual rate. Capacity will increase from 23,064,000 tons in 1988 to an estimated level of 25,887,000 tons in 1991. In that year, printing and writing paper capacity should grow to 29.2% of all paper and paperboard capacity, compared to 24.7% in 1978.

- Planned additions to newsprint capacity will total one million annual tons and will yield a growth rate averaging

5.2% annually through 1991. Capacity is expected to increase from 6,116,000 annual tons in 1988 to 7,117,000 tons in 1991. The basis for this growth will include the construction of three greenfield mills and the installation of a large new machine in an existing mill. These new facilities, which will be brought into production in 1989 and 1990, will end a six year low-growth period in which no new machines were installed and capital expenditures were concentrated on product improvement.

- The capacity for tissue papers is expected to grow at a 2.7% average annual rate as a result of the installation of five new machines between 1989 and 1991.

- On the heels of a 436,000 ton capacity reduction in 1987 and 1988, which continued an earlier trend, capacity for unbleached kraft packaging papers will increase by 71,000 annual tons in 1990 and 1991.

- Domestic demand for corrugated shipping containers and off-shore demand for U.S. containerboard have been at record levels throughout the 1986-1988 period. Producers of unbleached kraft and semi-chemical paperboard now plan to increase capacity at rates higher than at any time in the past decade.

- Capacity for solid bleached and recycled paperboard is expected to grow at annual rates averaging 2.1% and 1.8%, respectively, in the three-year period 1989 through 1991.

- Although no greenfield mill capacity for market wood pulp was reported in the survey, capacity was increased by 839,000 annual tons in 1987 and 1988. Future expansion, planned for 1989 through 1991, will add an additional 525,000 annual tons. Together, these increases will achieve a 17% capacity gain over the 1987-1991 period.

- Planned additions to capacity for sulfate and soda paper grade pulps, which now comprise more than 75% of all wood pulp produced in the U.S., should increase capacity at a 2.6% annual average rate from 48,496,000 tons in 1988 to 52,381,000 tons in 1991.

Copies of the Capacity Survey are available for \$300 each, domestically, and \$325, overseas, from the Capacity Department, Box SM, American Paper Institute, 260 Madison Avenue, New York, NY 10016.

GROWTH TRENDS IN PAPER PRODUCTION CAPACITY

(Thousands of Short Tons)

ADDITIONS 1979-1988

GRADES	10 YEAR INCREASE	AVERAGE ANNUAL GROWTH
TOTAL PAPER & PAPERBOARD	17,223	2.4%
TOTAL PAPER	9,739	2.8
NEWSPRINT	2,012	4.1
PRINTING & WRITING	7,498	4.0
PACKAGING & IND. CONV.	(752)	(1.3)
TISSUE	982	1.9
TOTAL PAPERBOARD	7,485	2.1
UNBLEACHED KRAFT	5,120	3.0
SOLID BLEACHED	482	1.1
SEMICHEMICAL	1,057	2.0
RECYCLED	826	0.9

PLANNED ADDITIONS 1989-1991

GRADES	3 YEAR INCREASE	AVERAGE ANNUAL GROWTH
TOTAL PAPER & PAPERBOARD	8,249	3.3
TOTAL PAPER	4,432	3.5
NEWSPRINT	1,001	5.2
PRINTING & WRITING	2,823	3.9
PACKAGING & IND. CONV.	137	0.8
TISSUE	470	2.7
TOTAL PAPERBOARD	3,817	3.1
UNBLEACHED KRAFT	2,423	3.9
SOLID BLEACHED	306	2.1
SEMICHEMICAL	573	3.2
RECYCLED	515	1.8